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FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC 1235
INFO RUCPCIM/CIMS NTDB WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCNCIS/CIS COLLECTIVE 0309
RUEHAK/AMEMBASSY ANKARA 2109
RUEHBUL/AMEMBASSY KABUL 0367
RUEHNE/AMEMBASSY NEW DELHI 0481
RUEHAST/USOFFICE ALMATY 0009

UNCLAS SECTION 01 OF 03 ASTANA 003177

SIPDIS

DEPT FOR SCA/CEN (O'MARA)
DEPT PASS TO OPIC - BALLINGER
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER
DEPT PASS TO AID - EE-PHILLIPS/RUSHING
TREASURY FOR OASIA/VELTRI
USDOC FOR 4231/ITA/MAC/MLONDON, 4201/BISNIS
USDOC FOR 6110/ITA/TD/BI/RHALPERN
ANKARA FOR CFC

SIPDIS

E.O. 12958: N/A
TAGS: ECON EIND ENRG EPET EFIN KTDB KZ
SUBJECT: KAZAKHSTAN ECONOMIC AND ENERGY UPDATE, NOVEMBER 5 - 18, 2007

ASTANA 00003177 001.8 OF 003

¶1. Summary: This information is drawn primarily from the Kazakhstani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government.

-- UniCredit Group Finalizes Purchase of ATF Bank
-- British Companies Expanding in Kazakhstan
-- SCO Members to Enhance Customs Cooperation
-- China's Ex-Im Bank to Finance Telecom Investment in Kazakhstan
-- Economic Statistics
-- Economy Ministry Suggests an End to the Use of PSAs
-- TengizChevrOil Pays $309M Fine
-- KazMunayGas Purchases 50% of Former Nations Energy
-- KazMunayGas, CNPC Agree on New Gas Pipeline
-- Oil & Gas Statistics for January-October 2007

UniCredit Group Finalizes Purchase of ATF Bank
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¶2. Bank Austria Creditanstalt AG (BA-CA), the division responsible within the UniCredit Group for commercial banking activities in Central and Eastern Europe, finalized the acquisition of 91.8% of the total issued share capital of Kazakhstan-based ATF Bank (Almaty Merchant Financial Bank) for approximately $2.1 billion. Specifically, BA-CA acquired 95.6% of total issued common shares for $1.66 billion and 85.0% of total issued preferred shares for $456 million. Through the acquisition of ATF Bank, the UniCredit Group is establishing a major presence in Kazakhstan and expanding its operations in Kyrgyzstan, Tajikistan and Russia. (Press-Service of ATF bank, November 14)

British Companies Expanding in Kazakhstan

¶3. U.K. Ambassador to Kazakhstan Paul Brummell said in an interview to Interfax-Kazakhstan that the number of British financial companies interested in operating in Kazakhstan is increasing. This provides a great opportunity for cooperation with Kazakhstani companies listed on London Stock Exchange. Ambassador Brummell also

noted that Great Britain remains one of the key investors in Kazakhstan, with a total of over $5 billion invested in the country's economy over the past 15 years. In Ambassador Brummell's opinion, the trend of increasing British investment in Kazakhstan will continue for the foreseeable future. (Interfax - Kazakhstan, November 12)

SCO Members to Enhance Customs Cooperation

¶4. Shanghai Cooperation Organization (SCO) member-states signed an intergovernmental agreement on customs cooperation and mutual assistance. Russian Prime-Minister Zubkov called the agreement "an important tool for creating a comprehensive security system within the SCO." The parties also agreed to review the SCO's basic economic documents, particularly long-term programs for multilateral trade and economic cooperation. (Interfax - Kazakhstan, November 5)

China's Ex-Im Bank to Finance Telecom Investment in Kazakhstan

¶5. Kazakhstan-based KazKommertsBank (KKB) signed a $34 million credit agreement with China's Export-Import Bank to finance the import of telecommunications equipment from Huwai Technologies Co., a leading Chinese producer. The credit, to be provided with a flexible repayment schedule over the course of seven years, will be used to develop a cellular network in cooperation with KazTelecom. (Central Asia General Newswire, November 14)

Economic Statistics

¶6. "As of November 1, 2007 the assets of the National Oil Fund were valued at $20.2 billion. By the end of 2007, we expect them to grow to $25-26 billion dollars," the then-Finance Minister Korzhova

reported to the Mazhilis on November 12. The assets of the National Oil Fund stood at just $14.0 billion at the end of 2006. (Interfax - Kazakhstan, November 12)

¶7. The average (mean) nominal monthly salary in September was KZT 53,005 (approx. $438), a 28.9% increase (16% in real terms) over September 2006. Kazakhstan's official living monthly salary (as of October 2007) was KZT 11,079 ($91.50). (Kazakhstani Statistics Agency, November 13)

Economy Ministry Suggests an End to the Use of PSAs

¶8. Kazakhstan's Ministry of Economy and Budget Planning has submitted a proposal to the GOK to stop using Production Sharing Agreements (PSAs) with subsoil users in the future, abolish VAT privileges for geological prospecting activities and increase existing rates of royalties, Galymzhan Zhakupov, Head of the Ministry's Tax Policy and Forecasting Department, said at a KazEnergy association meeting on November 5. "In the future contracts should be concluded on a concession basis. The earlier concluded PSAs will be effective until they expire," he said. According to Zhakupov, currently PSA taxation is extremely complicated and non-transparent. Moreover, tax inspections and audits are made more difficult because of differences between terms set in PSAs and current legislative norms. (Reuters - Astana, November 5)

TengizChevrOil Pays $309 Million Fine

¶9. An Atyrau regional court upheld the decision of a regional economic court to levy a fine of KZT 37.4 billion (approx. $309 million) against TengizChevrOil (TCO) for illegal storage of 2.8 million tons of solid sulfur in 2003-06. The court rejected TCO's appeal TCO made earlier. It also rejected a notice of protest filed by the Atyrau regional environmental office which demanded that TCO pay a large sum -- KZT 74.4 billion (approx. $615 million) -- for

its alleged violations. (Interfax - Kazakhstan, November 2)

KazMunayGas Purchases 50% of Former Nations Energy

¶10. Exploration & Production KazMunayGas (E&P KMG, an oil producing subsidiary of KazMunayGas) and China's CITIC Canada signed an agreement for E&P KMG to buy a 50% stake in CITIC Canada Petroleum (the former Nations Energy Company, whose main asset is the Karazhanbas field in Mangystau region). The document was signed during the 4th meeting of the Kazakh-Chinese Cooperation Committee on November 8. The E&P KMG board of directors approved the $930-million acquisition in early October. CITIC Group reached an agreement to purchase Nations Energy Company for $1.91 billion on October 25, 2006. Later Nations Energy was renamed CITIC Canada Petroleum. Having received approval for the deal, on December 28, 2006 CITIC granted KMG a one-year option to purchase a 50% stake in CITIC Canada Petroleum. (Interfax - Kazakhstan, November 12)

KazMunayGas, CNPC Agree on New Gas Pipeline

¶11. On November 8, on the sidelines of the official visit of Chinese Vice-Premier Wu Yi to Kazakhstan, KazMunayGas and China National Petroleum Company (CNPC) signed an agreement spelling out the fundamentals of the construction and operation of a gas pipeline between Kazakhstan and China. The sides agreed to set up a jointly-owned company which will own the gas pipeline. Implementation of the project is contingent upon approval of a feasibility study. The project is designed to be implemented in two phases. Initially, a pipeline would be laid from the borders of Uzbekistan and Kazakhstan to China via Shymkent (south Kazakhstan), with an annual capacity of 40 billion cubic meters. Later, the pipeline would be extended between Beyneu, Bozoi (west Kazakhstan), Kyzyl Orda (south Kazakhstan) and Shymkent, with an annual capacity of 10 billion cubic meters. (Interfax - Kazakhstan, November 12)

Oil & Gas Statistics for January-October 2007

¶12. According to the National Statistics Agency, from January to October 2007, Kazakhstan produced 46 million tons of crude oil, 2.1% more than in the same period in 2006, and 10 million of gas condensate, 17.9% more year-on-year. During the first ten months of 2007 Kazakhstan produced 24 billion cubic meters of natural gas, a 14.1% increase from the January-October 2006 period. (Interfax - Kazakhstan, November 12)

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